

Message Text

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S E C R E T SECTION 1 OF 2 USNATO 4223

E.O. 11652: GDS 12/31/81

TAGS: MCAP, NATO, CA

SUBJ: CANADIAN DEFENSE DECISIONS

REF: USNATO 4155

TEXT OF STATEMENT BY AMBASSADOR MENZIES (CANADA) TO DPC ON
SEPT 5 COVERING CANADIAN DECISION ON FINANCING OF DEFENSE
PROGRAM 1974/5 TO 1978/9 (REFTEL) IS GIVEN BELOW.

BEGIN TEXT.

AT THE MINISTERIAL MEETING OF THE DEFENCE
PLANNING COMMITTEE ON JUNE 7TH THE CANADIAN MINISTER OF
NATIONAL DEFENCE, HON. JAMES RICHARDSON, STATED THAT HE
WAS DISCUSSING WITH HIS CABINET COLLEAGUES DEFENCE
BUDGET PROPOSALS DESIGNED TO PROVIDE A SOUND FINANCIAL
BASIS ON WHICH TO PLAN THE PROGRAMS NEEDED TO IMPROVE
THE EFFECTIVNESS OF THE CANADIAN ARMED FORCES AND, IN
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PARTICULAR TO MODERNIZE ITS EQUIPMENT. THE CABINET HAS
NOW COMPLETED ITS EXAMINATION OF THESE PROPOSALS, AND I
HAVE BEEN ASKED TO BRIEF THE DPC.

IN ITS WHITE PAPER ON DEFENCE PUBLISHED IN AUGUST 1971 THE GOVERNMENT ANNOUNCED THAT THE DEFENCE BUDGET FOR THE FISCAL YEARS 1973/4 AND BEYOND WOULD BE ESTABLISHED ON THE BASIS OF PROGRAM FORECASTS AND ESTIMATION IN ACCORDANCE WITH THE PRACTICE FOLLOWED BY OTHER GOVERNMENT DEPARTMENTS.

AFTER THE WHITE PAPER WAS PUBLISHED, IT BECAME EVIDENT THAT APPLICATION TO THE DEFENCE PROGRAM OF THE RESOURCE ALLOCATION PROCEDURES EMPLOYED FOR OTHER GOVERNMENT DEPARTMENTS WAS UNLIKELY TO PROVIDE THE DEGREE OF LONG-TERM BUDGETARY STABILITY ESSENTIAL TO RATIONAL DEFENCE PLANNING AND THE EFFICIENT MANAGEMENT OF DEFENCE RESOURCES TO ACHIEVE THE GOVERNMENT'S DEFENCE OBJECTIVES. A NUMBER OF TECHNICAL PROBLEMS AROSE FROM THE GREATER SCALE AND COMPLEXITY OF THE DEFENCE PROGRAM IN RELATION TO PROGRAMS OF MOST OTHER DEPARTMENTS. THE PROCEDURE ALSO MEANT THAT THE DEFENCE PROGRAM WOULD BE BROUGHT ANNUALLY INTO COMPETITION FOR RESOURCES WITH PROGRAMS OF THE CIVIL DEPARTMENTS. THIS COULD GIVE RISE TO EITHER RELUCTANCE TO TAKE DECISIONS WITH LONG TERM IMPACT OR INSTABILITY IN INHERENTLY LONG LEAD TIME PROJECTS BY EXPOSING THEM TO AN UNREASONABLE DEGREE TO CONSTANT REVIEW AND ADJUSTMENT. THIS PROBLEM WAS BROUGHT HOME TO THE GOVERNMENT AT THE TIME RECOMMENDATIONS ON THE ACQUISITION OF A NEW LONG RANGE PATROL AIRCRAFT WERE CONSIDERED.

A BETTER APPROACH WAS SOUGHT, THEREFORE, AND LAST SUMMER THE CABINET APPROVED IN PRINCIPLE THE CONCEPT OF FINANCING THE DEFENCE PROGRAM IN ACCORDANCE WITH A FORMULA WHICH WOULD HAVE THE THREE FOLLOWING PRINCIPAL FEATURES:

(A) PROJECT FOR FIVE YEARS INTO THE FUTURE THE AMOUNT OF FUNDS TO BE ALLOCATED TO THE DEFENCE PROGRAM EACH YEAR.

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(B) GENERATE ADEQUATE CAPITAL FUNDS FOR THE SEVERAL LARGE EQUIPMENT REPLACEMENT PROGRAMS NEEDING TO BE UNDERTAKEN IN THE YEARS AHEAD.

(C) REFLECT THE ASSUMPTION THAT, IN THE ABSENCE OF UNFORESEEN DEVELOPMENTS REQUIRING A MAJOR CHANGE IN THE DEFENCE PROGRAM, THE PROGRAM WILL REMAIN AT ABOUT ITS PRESENT LEVEL.

IN APPROVING THE CONCEPT IN PRINCIPLE LAST SUMMER THE CABINET DIRECTED THE DEPARTMENT OF NATIONAL DEFENCE, IN CONSULTATION WITH STAFF OF THE TREASURY BOARD, TO DEVELOP SPECIFIC PROPOSALS FOR A FORMULA SATISFYING THESE CRITERIA.

THE FINANCING FORMULA WHICH THE GOVERNMENT HAS NOW APPROVED USES THE EFFECTIVE BUDGETARY ALLOCATION TO THE DEPARTMENT OF NATIONAL DEFENCE FOR THE FISCAL YEAR 1973-74, AMOUNTING TO 2.143 BILLION DOLLARS, AS THE BASE AND PROVIDES FOR ESCALATION OF THE DEFENCE BUDGET FROM THAT BASE AT A RATE OF SEVEN PERCENT EACH YEAR FOR A PERIOD OF FIVE YEARS BEGINNING WITH THE FISCAL YEAR 1974-75.

A VARIETY OF CONSIDERATIONS ENTERED IN THE SELECTION OF SEVEN PERCENT AS THE ANNUAL RATE OF BUDGETARY GROWTH. IN BRIEF, IT WAS JUDGED TO BE THE RATE APPROPRIATE TO DO TWO THINGS:

(1) INSULATE (SUBJECT TO CERTAIN INITIAL PROGRAM ADJUSTMENTS) THE CURRENT LEVELS OF PROGRAM AND OPERATIONAL CAPABILITY AGAINST EROSION AS A RESULT OF COST OR PRICE INFLATION, AND

(2) AT THE SAME TIME, PROVIDE SUFFICIENT REAL GROWTH IN THE BUDGETARY RESOURCES ALLOCATED TO THE DEFENCE PROGRAM TO MAKE POSSIBLE A BUILD UP OVER A FIVE YEAR PERIOD OF THE PROPORTION OF THE DEFENCE BUDGET AVAILABLE FOR CAPITAL EXPENDITURE FROM THE VERY LOW LEVELS TO WHICH IT HAD FALLEN IN RECENT YEARS, AT A RATE WHICH IS BOTH SUSTAINABLE AND ADEQUATE TO FUND OUR MAJOR NEW EQUIPMENT PROGRAMS.

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IN GIVING FINAL APPROVAL TO THE FINANCING FORMULA, CABINET EXAMINED CERTAIN PROGRAM ADJUSTMENTS CONSIDERED NECESSARY TO PRODUCE ECONOMIES REQUIRED TO CORRECT CERTAIN IMBALANCES IN THE DEFENCE PROGRAM WHICH DEVELOPED DURING THE PERIOD WHEN THE DEPARTMENT OF NATIONAL DEFENCE WAS OPERATING UNDER A TIGHT BUDGETARY CEILING AND CARRYING OUT THE COROLLARY REDUCTION IN REGULAR FORCE STRENGTH.

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THE MAJOR IMBALANCES WERE:

(A) REDUCTION OF CAPITAL EXPENDITURES IN FAVOUR OF
PERSONNEL, OPERATION AND MAINTENANCE EXPENDITURES;

(B) DEFERRAL OF NECESSARY BUT POSTPONABLE MAINTENANCE;

(C) UNSATISFACTORY BALANCE OF PERSONNEL IN THE
OPERATIONAL AND SUPPORT CATEGORIES.

THE PROGRAM ADJUSTMENT PROPOSALS CONSIDERED BY
CABINET ARE DESIGNED TO ENABLE THE DEPARTMENT OF NATIONAL
DEFENCE TO GET WITHIN ITS 1973/74 APPROVED BUDGET OF
\$2,143 BILLION BEFORE COMMENCING THE 7 PCT ANNUAL INCREASE
IN 1974/75. THE ADJUSTMENTS INVOLVED CERTAIN MEASURES
THAT WILL HAVE A DOMESTIC ECONOMIC IMPACT AND OTHER WHICH
WILL HAVE SOME IMPACT ON THE OPERATIONAL CAPABILITY OF THE
CANADIAN FORCES AND THEIR ABILITY TO FULFIL UNDERTAKINGS
EITHER IN THE BILATERAL CONTEXT OF THE CANADA-UNITED STATES
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NATO CONTEXT. WE BELIEVE THAT THE IMPACT OF THESE ADJUST-
MENTS WILL BE RELATIVELY SMALL, ESPECIALLY WHEN MEASURED
AGAINST THE IMPROVEMENTS IN THE EFFECTIVENESS AND QUALITY
OF OUR FORCES AND THEIR EQUIPMENT IN CARRYING OUT CANADA'S
DEFENCE OBJECTIVES WHICH WILL FLOW FROM APPROVAL OF THE NEW
FINANCING FORMULA.

THE TWO ADJUSTMENTS WHICH WILL AFFECT CANADA'S
UNDERTAKINGS TO NATO ARE:

(A) DISPOSAL OF 4 RESERVE FLEET DESTROYERS,
EARMARKED UNDER CATEGORY C FOR ASSIGNMENT
TO NATO COMMAND. CANADA HAS IN FACT NO HAD
THE CREWS TO MAN THESE DESTROYERS FOR SOME YEARS.

(B) REMOVE ASW EQUIPMENT FROM TRACKER AIRCRAFT
AND REDUCE THE FLEET TO 16. THESE TRACKER
AIRCRAFT WERE PROCURED FOR USE ON THE HMCS

BONAVENTURE, WHICH HAS SINCE BEEN PAID OFF,
AND HAVE BEEN USED FOR SHORT-RANGE COASTAL
PATROL DUTIES. BECAUSE OF THEIR LACK OF
RANGE THEIR ASW ROLE HAS BEEN INEVITABLY
LIMITED.

THE USA AUTHORITIES WERE INFORMED YESTERDAY ABOUT
THE NEW ARRANGEMENTS FOR FINANCING OF CANADA'S DEFENCE
PROGRAM AND THE ADJUSTMENTS WHICH IT IS PROPOSED SHOULD
BE MADE IN COMMENCING THE NEW 5-YEAR PROGRAM. THE PROPOSED
REDUCTION IN CANADA'S COMMITMENTS TO ATLANT WERE DISCUSSED
WITH SACLAN, ADMIRAL RALPH W. COUSINS, DURING A VISIT WHICH
HE PAID TO HALIFAX YESTERDAY. IT IS INTENDED THAT THE
MILITARY COMMITTEE SHOULD BE BRIEFED TOMORROW BY OUR
PERMANENT REPRESENTATIVE, VICE-ADMIRAL COLLINS SUPPORTED BY
REAR ADMIRAL HANINGTON, WHO HAS COME OVER TO BRUSSELS FOR
THAT PURPOSE.

THE CANADIAN MINISTER OF NATIONAL DEFENCE WISHES
TO MAKE A PUBLIC STATEMENT ON THIS SUBJECT AT AN EARLY DATE,
PROBABLY AROUND SEPT 20. IT WILL BE APPRECIATED THAT
ANY LEAKAGE OF INFORMATION CONCERNING THIS PROGRAM PRIOR TO
ITS PUBLIC ANNOUNCEMENT WOULD BE EMBARRASSING TO THE MINISTER.

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I SHOULD LIKE TO CLOSE BY EMPHASIZING THE POSITIVE
ASPECT OF THIS PROGRAM. THE CANADIAN FORCES WILL NOW HAVE
A BUDGET APPROVED FOR A 5-YEAR PERIOD, INCREASING BY 7 PCT PER
ANNUM. THIS MEANS THAT THE BUDGET OF \$2.143 BILLION FOR
THE BASE YEAR 1973/74 WILL HAVE GROWN TO JUST OVER 3 BILLION
DOLLARS BY 1978-79. WITHIN THESE TOTALS THE FORMULA PROJECTS
ANNUAL CAPITAL ALLOCATIONS INCREASING FROM \$245 MILLION TO \$530
MILLION, OR EXPRESSED AS A PERCENTAGE OF THE TOTAL DEFENCE
BUDGET, FROM 11.4 PCT TO 17.6 PCT. THESE INCREASES SHOULD ENABLE
THE CANADIAN FORCES TO PROCEED WITH PLANNING FOR THE MODERNI-
ZATION OF EQUIPMENT. IN DOING SO THEY WILL, OF COURSE,
MAINTAIN CLOSE CONSULTATION WITH THE MAJOR NATO COMMANDERS.
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